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# Key Tax Measures of the Finance Act 2018

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## § Imposition of tax

From the year of assessment commencing on 1 July 2019, income tax shall be calculated on the chargeable income, other than companies engaged in export of goods and in banking activities, at 15%.

## § Export of goods

The income tax rate of 3% is extended to companies engaged in the export of goods to include international buying and selling of goods in their own name, whereby the shipment of such goods is made directly by the shipper in the original exporting country to the final importer in the importing country, without the goods being physically landed in Mauritius.

## § Global Business

Category 1 and Category 2 Global Business Licence ('GBL') are deleted wherever referred to in the Act.

*Note: The presumed foreign tax credit regime available to Category 1 GBL will be abolished from 31 December 2018. Instead, a partial exemption regime is introduced applicable to all companies in Mauritius, except banks.*

## § Partial exemption regime

The partial exemption regime consists of items 1, 2 and 5 of exempt income on page 4.

From the year of assessment commencing on 1 July 2020, no credit system for relief of double taxation shall be allowed in respect of foreign source income where partial exemption in respect of that income is claimed or the foreign source income relates to companies engaged in banking activities and is subject to tax at 5%.

*Note: The existing credit system for relief of double taxation will continue to apply where partial exemption is not claimed. Companies licensed by the Financial Services Commission claiming the partial exemption will have to satisfy pre – defined criteria of the FSC relating to substance.*

## § Category 2 Global Business Companies

A GBC 2 licenced on or before 16 October 2017 shall up to 30 June 2021 be exempt from income tax. The exemption shall not apply to:

i) Intellectual property assets acquired from a related party after 16 October 2017.
ii) Intellectual property assets acquired from an unrelated party or newly created intellectual property assets acquired after 30 June 2018.
iii) Income derived from such specific assets acquired or projects started after 31 December 2018.

### § Foreign Source Income

"Foreign Source Income" now means income which is not derived from Mauritius.

*Note: The interpretation now excludes income of a GBL 1 corporation and of a bank derived from transactions with non – residents or other GBL corporations.*

A GBC 1 licenced on or before 16 October 2017 shall up to 30 June 2021 includes as foreign source income derived from its transactions with non – residents or corporations holding a Global Business Licence.

A bank shall up to the year of assessment commencing on 1 July 2019 include, as foreign source income, income derived from its banking transactions with non – residents or GBL entities.

### § Non – resident companies

A company incorporated in Mauritius having its place of effective management outside Mauritius shall be treated as a non – resident and shall submit an annual income tax return.

### § Advanced Payment System (APS)

As from the year of assessment commencing on 1 July 2019, a company with a GBC 2 licence or a special purpose vehicle established under the Financial Services Act, 2007 which has opted to be liable to income tax shall comply with the APS system.

### § Companies with freeport certificate

The income of a freeport operator or private freeport developer shall be taxed at 15% unless issued with a freeport certificate on or before 14 June 2018.

The latter company shall continue to be exempted from tax up to 30 June 2021.

### § Tax Deduction at Source (TDS)

From 09 August 2018, TDS is applicable to:

| | |
|---|---|
| Commission paid to an agent in relation to a commercial transaction | 3% |
| Rent payable to a non - resident | 10% |

*Note: No TDS is now applicable to director fees.*

## § Corporate Social Responsibility (CSR)

A freeport operator or a private freeport developer is no longer subject to CSR contribution.

From the year of assessment commencing on 01 July 2019, the amount to be remitted to the MRA in respect of CSR fund set up on or after 1 January 2019 may be reduced by 25% with the approval of the National CSR Foundation for companies financing a qualified CSR programme which has started before 01 Jan 2019.

The above is also applicable to certain companies exempt under Part II of Sub part C the Second Schedule of the Act.

*Note: Companies will not be allowed to offset any unused tax credit such as the foreign tax credit against CSR payable. Companies which have been granted tax holidays will be required to contribute CSR.*

## § Artwork acquired from member of the Mauritius Society of Authors

A company which is not a dealer in artwork is allowed in an income year a deduction from its gross income, expenditure, not exceeding in aggregate Rs 500,000 over 3 consecutive years, incurred on the acquisition of an artwork from a member of the Mauritius Society of Authors for display in a conspicuous place on its business premises. If the artwork is not displayed during or sold within a period of 3 years from the date of acquisition, the expenditure shall be deemed to be gross income of the company in the year in which it is sold or ceases to be displayed.

## § Investment in créches

A company may be allowed a double deduction from its gross income of the amount of capital expenditure incurred on a créche for the benefit of its employees. It shall not be entitled to annual allowance in respect of that créche.

## § Tax Credit on new plant and machinery

A credit of 5% shall be allowed of the cost of new plant and machinery (excluding motor cars) in the year of acquisition and in each of the 2 subsequent income years for expenditure incurred during the period 1 July 2018 to 30 June 2020 by a company engaged in the importation of goods in semi knocked – down form.

No credit shall be allowed where local value addition made to the goods is less than 20%.

## § Solidarity levy on telephony service providers

No levy is payable in the year where the operator has incurred a loss in the immediate preceding year.

## § Exempt Income

| No | Income derived from | Exempt |
|---|---|---|
| 1 | Foreign source dividend derived by a company | 80% of the foreign dividend provided the dividend was not allowed as a deduction in the country of source |
| 2 | Interest by a company other than a bank and interest derived from overseas | 80% of the interest |
| 3 | Income from activities as a project developer or project financing institution in collaboration with the Mauritius Africa Fund for infrastructure in the Special Economic Zones | For a period of 5 succeeding income years from start of activity<br>Special Economic Zone is part of the territory of a foreign country where business activity may be conducted under preferential terms |
| 4 | Income from any activity under the sheltered farming scheme set up by the Food and Agricultural Research and Extension Institute. | During 8 successive income years as from the year activity started |
| 5 | Profit of a permanent establishment | 80% of the profit attributable to a permanent establishment which a resident company has in a foreign country |
| 6 | Income derived from overseas by a collective investment scheme (CIS), closed end fund, CIS manager, CIS administrator, investment advisor or asset manager | 80% of the income |
| 7 | Income derived from overseas by companies engaged in ship and aircraft leasing | 80% of the income |
| 8 | Income derived by a company registered with the Economic Development Board and engaged in the manufacturing of automotive parts | During 8 successive income years from the income year of starting activities |

## § Banking activities

Banks shall be liable to income tax at 15% of its chargeable income up to and including the year of assessment commencing on 1 July 2019.

From the year of assessment commencing on 1 July 2020, income tax shall be calculated on the chargeable income of a bank, viz:

| Chargeable income | Percentage rate |
|---|---|
| First Rs 1.5 billion | 5% |
| Remainder | 15% |

Where the chargeable income exceeds Rs 1.5 billion in an income year and in its base year, i.e. the year of assessment 2017/18, income tax shall be calculated on the chargeable income of the bank, viz:

| Chargeable income | Percentage rate |
|---|---|
| First Rs 1.5 billion | 5% |
| Exceeding Rs 1.5 billion up to the amount equivalent to the chargeable income of the base year | 15% |
| Remainder | 5% |

Where the chargeable income exceeds Rs 1.5 billion in an income year and the chargeable income of the base year, i.e. the year of assessment 2017/18, does not exceed Rs 1.5 billion, income tax shall be calculated on the chargeable income of the bank at 5%.

*Note: No distinction between Segment A and Segment B income will be made upon the above changes. Any bank incorporated after 14 June 2018 is governed by the new tax regime.*

## § Special levy on banks

The special levy is no longer applicable as from year of assessment commencing on 01 July 2019.

*Note: A special levy will be payable under the Value Added Tax Act.*

## § One – off charge on banks

The charge is no longer applicable.

## § Investment banking licence

Notwithstanding the deletion of the provision for the exemption of the income of a corporation issued with an Investment Banking Licence, a corporation issued with an investment banking licence on or after 1 September 2016 shall be exempt from income tax for a period of 5 income years as from the income year in which it was granted its licence.

### § Calculation of income tax

Income tax shall be calculated on annual net income not exceeding Rs 650,000 at 10% and on annual net income exceeding Rs 650,000 at 15% contrary to the standard 15% tax rate.

*Note: An employee may, depending on his average cumulative emoluments, suffer PAYE tax deductions at 10% in one month and 15% in another. When shifting from the tax rate of 10% to 15%, the employee will have to catch up on tax under paid in preceding pay periods.*

### § Taxation of a non-resident

From the income year commencing on 1 July 2018, a non – resident individual deriving rent, royalty, premium or other income from property in Mauritius shall be liable to pay income tax on his chargeable income at 15%.

*Note: A non - resident deriving rental income of less than Rs 650,000 will not be eligible to the 10% rate of tax.*

### § Interest relief

The profit charge payable under on Islamic Financing Arrangement for the construction of a house will qualify for interest relief if the arrangement is secured on immovable property.

### § Expenditure incurred by artists

From the income year commencing on 1 July 2018, instead of claiming a deduction for expenditure incurred in the production of gross income from artistic work not exceeding Rs 500,000, an artist, who is a member of the Mauritius Society of Authors, can opt to claim a deduction of 50% of the gross income generated from his artistic work other than a literary work.

### § Rainwater harvesting system investment allowance

From the income year commencing on 01 July 2018, an amount invested in an income year in a rainwater harvesting system can be deducted from net income net of reliefs under the Act. Any unrelieved amount may be carried forward for deduction against net income of succeeding years.

In the case of a couple where neither spouse is a dependent spouse, the relief may be optionally taken by one spouse or divided equally for each spouse.

“Rainwater harvesting system” means a system to capture, filter and store rainwater and includes consultancy, design works, excaution works, gutters and specialised water tanks in relation to the setting up of a rainwater harvesting system.

## § Employee Declaration Form

An employee who in respect of an income year has claimed reliefs under the Act in his Employee Declaration Form and is thereafter found to have claimed in excess 10% or more of his entitlement shall be liable to a penalty of 25% of the underpaid amount arising from his claim.

## § Income Exemption Threshold (IET)

An increase in the threshold for each category of IET

| | Income year 30 June 2019 | Income year 30 June 2018 |
|---|---|---|
| Category A (individual with no dependent) | 305,000 | 300,000 |
| Category B (Individual with 1 dependent) | 415,000 | 410,000 |
| Category C (Individual with 2 dependents) | 480,000 | 475,000 |
| Category D (Individual with 3 dependents) | 525,000 | 525,000 |
| Category E (Individual with 4 or more dependents) | 555,000 | 550,000 |
| Category F (Retired/ Disabled person with no dependent) | 355,000 | 350,000 |
| Category G (Retired/ Disabled person with no dependent) | 465,000 | 460,000 |

A person having dependent children pursuing a non – sponsored full – time undergraduate course at a recognized tertiary educational institution is eligible in addition to the income exemption threshold under Category B, C, D, E or G up to maximum of 3 dependents an additional exemption threshold of:

a) Rs 135,000 or the amount of tuition fee up to a maximum of Rs 175,000 in respect of each dependent studying in Mauritius.

b) Rs 200,000 in respect of each dependent pursuing undergraduate course outside Mauritius.

## § Lump sum payment

The first Rs 2.5 million (formerly Rs 2 million) of lump sum by way of commutation of pension or by way of death gratuity or as consolidated compensation for death or injury is exempt from income tax.

## § Registration of employees

An employee shall provide his National Identity Card to his employer at the time of taking up employment. In case of non-citizens, the identification number issued by the immigration officer shall be used.

## § Statement of assets and liabilities

As from 1 July 2018, a person who has submitted a return of income for each of the 5 income years immediately preceding an income year is not required to submit a statement of assets and liabilities with his income tax return.

*Note: The Act requires a statement of assets and liabilities from every person who in a income year derives net income and exempt income exceeding Rs 15 million or own assets aggregated with the assets owned by his spouse and dependent children exceeding Rs 50 million.*

## § Negative Income tax

The tax is now based on "basic salary" instead of "earnings".

"Earnings" means all salary and wages before any deduction for unpaid leaves and absences, overtime pay, leave pay and other allowances in money as money's worth, other than travelling and end – of year bonus derived from employment and included any annuity, pension and other basic retirement pension.

## § Homeworkers

Where during the period 1 July 2018 to 30 June 2020, an employer of a full-time homeworker is allowed to deduct 200% of the emoluments payable to the homeworker from his gross income other than his own emoluments.

The employer must acquire the necessary information technology system to enable the homeworker to work from home and employ more than 5 homeworkers who have started to work from home on or after 1 July 2018 and who earns monthly emoluments excluding end of year bonus of less than Rs 100,000.

The deduction is allowable during a period of 24 consecutive months starting on or after 1 July 2018.

During the period 1 July 2018 to 30 June 2020, a person who incurs capital expenditure on information technology systems for the purpose of employing homeworkers shall be allowed a tax credit of 5% of the cost of information technology systems in the year of acquisition and in each of the 2 subsequent income years.

## § Tax on Winnings

From 1 September 2018, a casino operator, a hotel casino operator, a gaming house operator or the Mauritius National Lottery Operator shall withhold 10% of winnings exceeding Rs 100,000 for remittance to the MRA accompanied by a statement of the amount paid to each person.

The statement of winnings above Rs 100,000 to the MRA is also applicable to a bookmaker, a totalisator and an agent of a foreign pool operator.

Any failure to pay the amount of tax, to submit the statement of winnings or to submit a false or misleading return or statement is subject to a fine and to imprisonment.

The amount of tax withheld is payable to the MRA 20 days from the end of the month in which the tax was deducted. The operator shall submit a nil return if no tax was deducted in a month. Late submission of return and/ or payment of tax is subject to penalty and interest.

## § Losses

Where a loss which has been determined by the MRA for set – off or to carry forward is subsequently found to be overstated, the MRA may make another determination of the loss, and, if dissatisfied, an objection can be lodged.

Any loss not relieved during the period of exemption by a person benefitting exemption under the Act can be carried forward after the exemption period.

## § Additional assessment

The MRA can make an additional assessment if it subsequently finds that tax has been underclaimed from an earlier assessment made.

The MRA shall not make an additional assessment after 3 years from the year of assessment to which the additional assessment relates.

## § Sukuks

“Sukuks” is exempt income.

*Note: “Sukuks” is defined as Islamic bonds, structured in such a way as to generate returns to investors without infringing Islamic Law (that prohibits interest)*

## § Deferred payment of VAT

A VAT registered person may defer payment of VAT at importation on capital goods being plant and machinery by including the VAT deferred as output tax in the taxable period in which the VAT is deferred. Where the VAT deferred is not declared as output tax, the tax shall become due and payable to the MRA.

*Note: The VAT payable on Import of capital goods must exceed Rs 150,000.*

## § Input tax allowed

Input tax on quad bikes, golf cars and similar vehicles is allowed as credit against output tax.

## § Refund of VAT

a) To persons other than registered persons

A non-registered person can also now apply for a refund of VAT on services when he could only apply for refund on equipment listed in the Twelfth Schedule of the Act.

Local artists registered with the Mauritius Society of Authors will benefit from refund of VAT paid on musical instruments under the VAT Refund Scheme.

A planter can benefit from VAT refund on additional equipment and services.

b) To persons on residential building, house or apartment

The condition of no refund where an application is made more than 12 months from the date of final payment to the building contractor or property developer is amended to read from the VAT invoice or receipt.

## § Cancellation of registration

Where the registration of a registered person is cancelled, the person shall submit a return and pay the tax due including tax on any capital goods exceeding Rs 100,000 forming part of the assets of the business other than tax in respect of motor vehicles and accessories where input tax was denied.

## § Return and payment of tax

Every registered person required to submit monthly returns shall at the time of submitting his return, also submit electronically a list of taxable supplies made to any person, other than supplies by retail, in the format of the MRA.

## § Use of electronic fiscal device

The MRA may require any person to use an electronic fiscal device to record any matter or transaction which may affect the liability to tax of that person. Any person who fails to do so, uses the device in such a manner as to mislead the MRA, or deliberately tampers with it or causes it to work improperly shall be liable to a penalty. A dissatisfied person can lodge an objection in respect of the penalty.

## § Additional assessment

The MRA can make an additional assessment if it is subsequently found that the tax has been underclaimed from an earlier assessment made or the excess to be carried forward has been overstated.

## § Exempt goods or services

The following shall now be exempted from VAT:

- Anti-smoking tablets and the like
- Manual labour supplied by an individual to a VAT registered person for the purpose of making supplies in the agriculture sector or the construction sector.
- Payment of subscription fees to a trade union, a prescribed statutory body and a prescribed registered association.

## § Zero – rated goods or services

- Photovoltaic systems including photovoltaic generators, photovoltaic panels, photovoltaic batteries and photovoltaic inventers.

- Services related to burglar alarm systems, viz:
  i) Upgrading
  ii) Repairs and maintenance;
  iii) Patrol and monitoring; or
  iv)Rental

- Menstrual cup,

- Watch straps, watch bands and watch bracelets of specific HS codes and parts thereof.

## § Exempt bodies or persons

The exemption currently granted on bus bodies built on chassis for semi floor buses is extended to cover all types of buses meant for public transport.

## § Special levy on banks

From the accounting period ending on or after 01 January 2019, every bank shall be liable to pay at least 5 months from the end of an accounting period a special levy on its leviable income derived in every accounting period as follows:

| | |
|---|---|
| A bank having a leviable income of Rs 1.2 billion or less | 5.5% |
| A bank having a leviable income of more than Rs 1.2 billion | 4.0% |

"Leviable income" means the sum of net interest income and other income from banking transactions with residents before deduction of expenses.

No levy shall be paid for an accounting period where the bank incurred a loss in the accounting period.

## § Payment of tax

(a) Set – off of taxes

When any tax has been paid in excess by a person and at the same time the person owes the MRA any other tax, the MRA, before effecting any repayment, may set – off the tax paid in excess against the tax due by that person.

(b) Order of payment

Where a person is liable for penalty and late payment interest in relation to a tax and the person makes payment, which is less than the total amount of tax, penalty and interest due, the amount paid shall be applied in the following order:

1. firstly, in payment of the tax due;
2. secondly, in payment of penalty due;
3. thirdly, the balance remaining shall be applied against late payment interest due.

Where at the time a payment is made, a person has tax liability for more than one tax, the above application shall apply to the earliest liability first.

*Note: Where any tax has been paid in excess by a person and at the same time the person owes to the MRA any other tax, the MRA may, before effecting any repayment, set – off the tax paid in excess against the tax due by that person.*

## § Recovery of tax arrears from emoluments

The MRA may enforce payment against a person who is an employee from his employer by deductions from the emoluments of the employee on account of arrears of tax payable by the employee. The deduction shall not exceed one third of the employee's emoluments for any pay period and is payable to the MRA within 20 days from the end of the month in which the tax was deducted.

## § Temporary closure of business premises

Where a person fails to pay any tax due by him, the MRA may notify the person in writing of his intention to close down part or the whole of the business premises of the person for a temporary period not exceeding 14 days, unless the person, within a period of 7 days of the date of notice-

a) Pays the tax due
b) Gives security for payment of the unpaid tax

## § Expenditious dispute resolution of tax scheme (EDRTS)

The scheme regarding settlement of disputes of less than Rs 10 million is being extended to assessments raised from 1 July 2015 to 30 June 2016.

§ Lodging written representations with Committee

From 01 September 2018, where written representations are lodged with the Assessment Review Committee, the person lodging the representations shall pay at the time of lodging his written representations 5% of the amount of tax determined as notified by the MRA.

§ Exchange of information with other countries

Penalties will be imposed on a person who fails to furnish information needed for automatic exchange of information with other countries.

*This newsletter is a summary of the key tax measures contained in the Finance Act 2018. You are therefore cautioned to consult with your tax advisor or ourselves prior to any action being taken. In any event, we neither make any representations, nor shall we have any liability, including claims for damages of any nature, to any parties in respect of this newsletter.*

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